"The Fiscal Year 2014 Military Construction Budget Request"

Statement

of

The Honorable Robert F. Hale Under Secretary of Defense (Comptroller)

before the

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Committee on Appropriations

Subcommittee on Military Construction, Veterans Affairs, and Related Agencies

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Mr. Chairman, members of the Committee, thank you for the opportunity to discuss the Military Construction and Family Housing portion of the Fiscal Year (FY) 2014 budget for the Department of Defense.

This committee's support is essential if America's Armed Forces are to have the infrastructure and facilities needed to carry out their missions and to continue ensuring the security of the United States.

Before I discuss the Military Construction and Family Housing request, I would like to set the stage with a brief summary of the President's Budget for the entire Department of Defense.

Base Budget Request

For FY 2014 the Department is requesting \$526.6 billion in discretionary budget authority. That is about eight percent higher than what we are executing in FY 2013 under the impact of sequestration, but it is similar to the level of funding in our FY 2013 budget request. In the years beyond 2014, we anticipate budgets that will increase by about two percent per year, roughly enough to keep pace with inflation.

I would make two broad points regarding our request for FY 2014. First, our overall budget is consistent with the adjusted provisions of Title I of the 2011 Budget Control Act (BCA). However, it does not take into account what could be a \$52 billion reduction if the BCA remains unchanged and these reductions become an annual event. The President has submitted a budget that calls for a balanced deficit reduction of \$1.8 trillion over the 10-year period. We hope that Congress will enact this deficit reduction plan, or an alternative that the President can sign, and then repeal sequestration.

Second, our budget does not yet include a request for Overseas Contingency Operations (OCO) funding. In order to give our commanders time to make the best judgments about the drawdown of troop levels in Afghanistan, the President did not announce force level decisions until mid-February, and even then he did so only for the period through February 2014. Since those force level decisions were made, we have been working on completing the OCO budget, and we hope to deliver it to Congress this month.

In short, the request we submitted last month for \$526.6 billion represents the base budget for the Department. It was developed with a number of fundamental principles in mind.

Stewardship

The first of these principles is to continue to serve as good stewards of taxpayer dollars. We recognize that, in a time of uncertainty when the nation is beset by economic problems, we need to do our part and stretch Defense dollars. Consequently,

we have proposed a budget that includes \$5.5 billion in efficiency savings next year and about \$34 billion in the five years from 2014 through 2018. Keep in mind that this is on top of the belt-tightening that the Department has gone through in recent years, including a budget plan in FY 2013 that reduced the Department's topline by \$487 billion over a decade.

As part of this ongoing commitment to good stewardship, we are asking Congress for authority for a new round of Base Realignment and Closure, better known as BRAC. It is not appropriate to identify specific facilities to be closed until this process has been completed, but we are patterning the effort after the rounds in 1993 and 1995. We know that BRAC, while it saves substantial sums in the long run, requires upfront funding. To pay related costs, we have added \$2.4 billion to the out-years of this budget in Fiscal Years 2016 through 2018.

We are also looking at a restructuring of the military health care system in order to address some significant underutilization in military treatment facilities. Our past efforts to control health care costs have met with some success, but we need to do more.

These two initiatives – BRAC and health care restructuring – are important for restructuring the civilian workforce. We anticipate a total civilian reduction of between four and five percent, or as many as 34,000 positions.

Other stewardship efforts in FY 2014 also include initiatives to terminate or restructure additional weapons systems. Specifics include termination of the precision tracking satellite system in favor of additional research on interceptor capability, and restructuring the SM-3IIB missile system in favor of warhead improvements.

In addition, we are undertaking additional efforts to slow the growth in military compensation, while continuing to provide strong support for the All Volunteer Force. The requested budget includes a modest slowing of the growth of military pay by implementing a one percent pay raise in FY 2014, instead of the 1.8 percent increase authorized in law.

Our request also includes additional changes to the TRICARE program in the FY 2014 budget to bring the beneficiary's cost share closer to the levels envisioned when the program was implemented – particularly for working age retirees. This change in health care cost share, along with our pay raise proposal, will save \$1.4 billion in 2014 and \$12.8 billion through FY 2018, which helps the Department avoid cuts in end strength, or in training and modernization, beyond those already planned.

Aligning With Strategic Guidance

After efficiencies, our second guiding principle in developing the proposed budget is to implement and deepen program alignment with the President's new Strategic Guidance that was introduced last year. That strategy envisions a smaller, leaner force.

As a result, we are continuing to draw down ground forces. By the end of FY 2014, we will be about two-thirds of the way toward an end strength target of 490,000 for the Army and 182,100 for the Marine Corps.

We also proposed a number of ship retirements last year in line with strategic needs. Congress rejected those proposals and provided funds to operate those ships through 2014. However, because these are costly but lower-priority vessels, we plan to retire the ships after FY 2014. We did reach agreement with Congress on aircraft retirements, and we are moving ahead on those.

The President's strategy also involves a rebalance toward the Asia-Pacific region while sustaining a presence in the Middle East. Our proposed budget reflects these goals. We are moving our most capable forces forward -- F-22s are now in Kadena and Okinawa and, by 2020, we'll have 60 percent of our Navy forces in the Pacific region. We are also working to expand access and cooperation in the region. That includes establishing a rotational Marine Corps presence in Australia and deploying ships to Singapore. We also envision a continued strong presence in the Middle East, aimed at providing stability in the region in part by deterring Iranian aggression.

Building alliances is a critical aspect of this strategy. We already have authority for the Global Security Contingency Fund (GSCF), a fund that DoD and the State Department can use jointly to aid allies. In FY 2014, for the first time, we are asking for dedicated funding of \$75 million for the GSCF.

Alignment with the new Strategic Guidance also involves protecting and investing in new capabilities and technology to sustain our role as the world's preeminent military force. Highlights include investments in FY 2014 in missile defense, upgrades to our carriers, enhanced long-range strike, a new tanker, the Joint Strike Fighter, more and better precision-guided munitions, procurement of an additional Virginia-class submarine, and an increase in funds for cyber security.

Seeking a Ready Force

Besides stewardship and alignment with the President's Strategic Guidance, the Department's FY 2014 budget request seeks to ensure and maintain a ready force. Over the last decade, our emphasis has been on counterinsurgency and counterterrorism. This budget emphasizes a return to full-spectrum operations and training across the Services.

For example, the Marines are shifting from what has been almost exclusively a land mission to their historic specialty in amphibious expeditionary warfare. We also hope to invest more in steaming and flying hours, reversing the severe limitations imposed by the present sequestration. Special Operations Command will return to its earlier status as a global force rather than concentrating on Afghanistan.

Unfortunately, our efforts to seek a ready force are being undermined by sequestration and wartime budget shortfalls. The resulting large shortfalls in our operating accounts have driven us to cuts in training that are having devastating effects on military readiness. The Army, for example, has cancelled seven combat training center rotations – ending this experience as a culminating training event for numerous units. As a result, by year's end many Army units will be below acceptable readiness levels. The Air Force has stopped flying at about one-third of its active combat-coded squadrons. This decision, and other reductions in flying hours, will limit the Service's ability to support combatant commanders. The Navy has cut back on deployments and also on training. All the Services have cut FY 2013 maintenance funding, which will adversely affect future readiness.

These unfortunate decisions not only seriously damage readiness in FY 2013. They will also damage military capability beyond this fiscal year.

People Are Central

The FY 2014 budget also seeks to maintain a vital emphasis on people in Defense. That is the fourth principle behind our budget request. It means, for example, that the Department continues to ensure that our budget in FY 2014 reflects our commitment and support for wounded warriors and military families.

As with readiness, our goal to make people central is being undermined by the budgetary chaos in FY 2013. Our civilians, who have suffered numerous pay freezes, may now face furloughs. Secretary Hagel is currently evaluating whether DoD should impose furloughs. Even our military personnel, whose funding is exempt from sequestration, are being hurt by resulting budget cuts because some can no longer train and stay ready to protect our nation's security – which is one reason they joined the military. Indeed, today's sequestration problem may become tomorrow's retention problem.

Military Construction and Family Housing

Mr. Chairman, that provides a brief summary of our proposed budget for 2014 and the basis for the proposal. It also provides a context for the Military Construction request that we are here to discuss today.

For FY 2014, we are asking \$9.5 billion for Military Construction, which is roughly equal to the President's request of \$9.6 billion for FY 2013. Our current request will provide \$3.3 billion to support operational and training facilities, \$0.9 billion to modernize medical facilities, and \$0.8 billion for 17 Dependents Schools projects. The request also includes \$1.3 billion for maintenance and production facilities and \$0.5 billion for BRAC-related expenses, primarily to cover environmental and caretaker costs for property not yet conveyed. The remaining \$2.7 billion of the request provides for research and development, supply, administrative and utility facilities, troop housing, the

NATO Security Investment Program, the Energy Conservation Investment Program, minor construction and planning and design.

In addition, we are asking for \$1.5 billion for the Family Housing program, which will help to provide and maintain quality, affordable housing for military personnel and their families in locations that lack adequate rental housing.

Selected Issues

Let me turn to several specific issues, starting with the effects of sequestration on Military Construction funding in FY 2013. Many Military Construction accounts will not experience sequestration cuts because of crediting provisions in the current law. Our initial assessment is that, for those accounts that are cut by sequestration, we can absorb most of the sequestration with available bid savings. Emphasis will be placed on completing on-going construction projects (including incrementally funded projects). We do not intend to reduce the scope of any construction projects. Our plan is to minimize the number of projects deferred or cancelled as a result of sequestration. However, since sequestration of affected accounts affects projects with unobligated balances, a large number of reprogramming actions will likely be required to execute the projects. Managing sequestration at the project level has been very difficult and will cost the Department many man hours to manage and implement.

Turning to the FY 2014 request, I want to highlight the importance of our request for funding in support of Global Defense Posture initiatives. In addition to the \$1.4 billion investment planned for overseas military facility investments, we are asking for another \$0.5 billion to continue strengthening forward capabilities and to ensure support for allies. Included are funds:

- To continue working with Japan to achieve an end state Marine presence in Okinawa consistent with the April 2012 Joint Statement on planned force posture,
- To enhance the ability of forces in the Asia-Pacific region to survive in potential future conflicts,
- For CV-22 support facilities in the United Kingdom, and
- For continued construction of AEGIS Ashore mission facilities in Romania.

In the Asia-Pacific region, investment is needed to establish a more enduring U.S. role in advancing security and prosperity in the region. This includes funds for the development of Guam as a strategic hub in the Western Pacific and to relocate Marines from Okinawa. These initiatives are particularly important because of our strategic goal to rebalance our forces toward the Asia-Pacific region.

I also want to highlight our efforts to reduce overseas infrastructure. For years we have been pursuing an aggressive program. Since 2003, the Department has returned more than 100 sites in Europe to their respective host nations, and we have reduced our personnel by one-third. The Army plans to close 33 additional sites

between FY 2013 and FY 2016, including those associated with the announced decision to reduce our presence from four to two Brigade Combat Teams.

Still, given recent announcements to further reduce our forces in Europe, we decided it was appropriate to build on our past successes in BRAC and use a similar approach to review our European infrastructure. We have initiated a comprehensive infrastructure analysis effort that will identify potential closures and consolidations. We are developing business case analyses for this task, taking into consideration operational impacts, return on investment, and military value. By the end of this year, we plan to produce a fully vetted list of options from which the Secretary can make strategic investment decisions.

As we reduce our footprint overseas, we also need to consolidate infrastructure in the United States. The only effective and fair way to do that is BRAC. And, contrary to some assertions, BRAC does save money. Today we are saving \$12 billion every year because of changes made during past BRAC rounds. We need to consolidate infrastructure now, and that statement will be even more true if Congress decides to continue cuts in defense funding. We must have your help to permit us to make cuts in infrastructure so that we can maintain a fighting force that is ready and modern. In short, we need your support for a BRAC round in 2015.

Conclusion

In conclusion, I believe that the Fiscal Year 2014 budget request is appropriate given the needs of the Armed Forces and the current fiscal reality. In particular, the budget supports a reasonable Military Construction and Family Housing program. We seek your support for our request. We also ask your help, and the help of others in Congress, to take actions to repeal sequestration and end its mindless and disastrous effects on our military forces.

Mr. Chairman, Members of the Committee, thank you again for your support for the Department of Defense and especially the men and women who wear America's uniform as well as the civilians who support them. That concludes my statement. I welcome your questions.

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